

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Meadow Independent School District

Universal Service Administrative Company

Federal Communications Commission:

We have examined Meadow Independent School District's (Beneficiary) (Beneficiary Number 141949) compliance with the Federal Communications Commission's (FCC) Title 47 of the Code of Federal Regulations (C.F.R.) Part 54 Rules and Regulations, as amended, and related FCC Orders identified in the accompanying Attachment I related to disbursements of \$153,931 for internal connections and basic maintenance of internal connections services made from the Universal Service Fund during the fiscal year ended June 30, 2007, and relative to its application and service provider selection processes for Funding Year 2006. Management is responsible for compliance with those requirements. Our responsibility is to express an opinion on Meadow Independent School District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and, accordingly, included examining, on a test basis, evidence about Meadow Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Meadow Independent School District's compliance with specified requirements.

Our examination disclosed the following material noncompliance's with 47 C.F.R. § 54.511 (a) and FCC Order 00-167, paragraph 10, applicable to Meadow Independent School District during the year ended June 30, 2007. The Beneficiary did not consider price as the primary factor in evaluating and selecting bids and the Beneficiary allowed a service provider to actively participate in and its competitive bidding process. Detailed information relative to these matters are described in Finding No. SL2007BE055_C01 and SL2007BE055_C02 in Attachment II.

In our opinion, except for the material noncompliance described in the third paragraph, Meadow Independent School District complied, in all material respects with the aforementioned requirements relative to disbursements of \$153,931, for internal connections and basic maintenance of internal connections services made from the Universal Service Fund during the fiscal year ended June 30, 2007, and relative to its application and service provider selection processes for Funding Year 2006.

In accordance with *Government Auditing Standards*, we also noted material control weaknesses and certain instances of noncompliance or other internal control matters that we have reported to the management of Meadow Independent School District, Universal Service Administrative Company and the Federal Communications Commission in a separate letter dated <date to be inserted once report is finalized>.

Charlotte, North Carolina
<date to be inserted once report is finalized>

**XYZ School
Universal Service Administrative Company
Federal Communications Commission**

Attachment I

**Federal Communications Commission's Title 47 C.F.R. Part 54 Rules and Regulations
and related FCC Orders with which Compliance was Examined**

Document Retention Matters

§ 54.504 (c)(1)(x), which was effective as of October 13, 2004

§ 54.516 (a), which was effective from July 17, 1997, through October 12, 2004

§ 54.516 (a)(1), which was effective as of October 13, 2004

Application Matters

§ 54.501 (b), as revised, which was originally effective as of July 17, 1997

§ 54.504 (b)(1), as revised, which was originally effective as of July 17, 1997

§ 54.504 (b)(2), which was effective as of July 17, 1997

§ 54.504 (b)(2)(i), which was effective as of October 13, 2004

§ 54.504 (b)(2)(iii), which was effective as of October 13, 2004

§ 54.504 (b)(2)(iv), which was effective as of October 13, 2004

§ 54.504 (b)(2)(vi), which was effective as of October 13, 2004

§ 54.504 (b)(2)(vii), which was effective from July 17, 1997 to October 12, 2004

§ 54.504 (c), which was effective as of February 12, 1998

§ 54.505 (b), which was effective as of July 17, 1997

§ 54.505 (c), as revised, which was originally effective as of July 17, 1997

§ 54.508 (a), which was effective as of October 13, 2004

§ 54.508 (c), which was effective as of October 13, 2004

§ 54.520 (c), which was effective as of April 20, 2001

§ 54.520 (c)(1)(i), which was effective as of April 20, 2001

§ 54.520 (c)(1)(ii), which was effective as of April 20, 2001

XYZ School
Universal Service Administrative Company
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Attachment I

Federal Communications Commission's Title 47 C.F.R. Part 54 Rules and Regulations and related FCC Orders with which Compliance was Examined (continued)

Service Provider Selection Matters

§ 54.504 (a), which was effective as of February 12, 1997

§ 54.504 (b)(4), which was effective as of January 1, 1999

§ 54.511 (a), which was effective as of July 21, 2003

FCC Order 00-167, paragraph 10, which was issued on May 23, 2000

FCC Order 03-313, paragraphs 39 and 56, which was issued on December 8, 2003 and was effective for Funding Year 2005

Receipt of Services and Reimbursement Matters

§ 54.500 (b), which was effective as of July 21, 2003

§ 54.504, which was effective as of July 17, 1997

§ 54.504 (b)(2)(ii), which was effective as of February 12, 1998

§ 54.504 (b)(2)(iii), which was effective as of July 17, 1997

§ 54.504 (b)(2)(v), which was effective from July 17, 1997 through March 10, 2004

§ 54.504 (b)(2)(v), which was effective as of October 13, 2004

§ 54.504 (c)(1)(vii), which was effective as of October 13, 2004

§ 54.504 (f), which was effective as of March 11, 2004

§ 54.504 (g), which was effective of March 11, 2004

§ 54.505 (a), which was effective as of July 17, 1997

§ 54.513 (c), which was effective as of March 11, 2004

§ 54.514 (b), as revised, which was originally effective as of July 21, 2003

§ 54.523, which was effective as of March 11, 2004

FCC Order 03-313, paragraph 60, which was issued on December 8, 2003

FCC Order 04-190, paragraph 24, which was issued August 13, 2004

XYZ School
Universal Service Administrative Company
Federal Communications Commission

Attachment II

Detailed Information Relative to Material Noncompliance (Findings)

(presented in accordance with the standards applicable to attestation engagements
contained in *Government Auditing Standards*)

Finding No: SL2007BE055_F01

- Condition:** The Beneficiary did not consider price as the primary factor in evaluating and selecting bids.
- Criteria:** Per 47 C.F.R. § 54.511 (a), The Beneficiary shall consider all bids submitted and select the most cost-effective service offering, with price being the primary factor considered
- Cause:** The Beneficiary's bid evaluation worksheet noting four separate categories for bids (Internal Connections, Maintenance, etc.), and each category had its own weighted scoring system. Weights were allocated between four or five criteria, totaling 100 possible points. Grant Thornton noted cost was the lowest, or tied for the lowest rated criteria in three categories, and was the second to lowest in the fourth. Grant Thornton also noted that not all service providers selected were evaluated using the bid evaluation worksheet.
- Effect:** The Beneficiary did not consider price as the primary factor in evaluating and selecting bids. In multiple cases, the service provider selected was not the lowest-cost bidder. If price were the only factor to be considered and the lowest-cost service provider been selected in each case, the maximum potential savings to the Universal Service Fund would have been as follows:

Funding Request Number	Potential Savings
1424478	\$2,049
1424502	\$1,890
1424518	\$5,940
Total:	\$9,878

- Recommendation:** The Beneficiary should review the requirements for bid evaluation and service provider selection, and make price their primary factor in evaluating and selecting bids.

Beneficiary Response:

XYZ School
Universal Service Administrative Company
Federal Communications Commission

Attachment II

Detailed Information Relative to Material Noncompliance (Findings)

(presented in accordance with the standards applicable to attestation engagements
contained in *Government Auditing Standards*)

Finding No: SL2007BE055_F02

Condition:	The Beneficiary allowed a service provider to actively participate in its competitive bidding process.
Criteria:	Per FCC Order 00-167, paragraph 10, The Beneficiary shall not surrender control of its competitive bidding process to a service provider that participates in that bidding process and will not include service provider contact information on its FCC Form 470s.
Cause:	The Beneficiary allowed a service provider to materially participate in the preparation of a Request for Proposal, preparation of the bid evaluation worksheet, bid evaluation, and bid selection.
Effect:	The service provider participating in the competitive bidding process (EduTex Consulting) created an unfair advantage for the service provider, which compromises the fairness of the bidding process. EduTex Consulting was the prevailing bidder over Desert Communications for Funding Request Numbers (FRN) #1424502 and #1424518 and in both cases EduTex was the highest bidder. The disbursement amounts for FRN #1424502 and #1424518 were \$8,640 and \$8,478, respectively.
Recommendation:	The Beneficiary should not allow service providers to participate in the competitive bidding process.
Beneficiary Response:	



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«Date to be inserted once report is finalized»

Meadow Independent School District

Universal Service Administrative Company

Federal Communications Commission:

We have examined management's assertions about Meadow Independent School District's (Beneficiary) (Beneficiary Number 141949) compliance with the applicable requirements of the Federal Communications Commission's (FCC) Title 47 of the Code of Federal Regulations (C.F.R.) Part 54 Rules and Regulations, as amended, and related FCC Orders, related to disbursements of \$153,931 internal connections and basic maintenance of internal connections from the Universal Service Fund during the fiscal year ended June 30, 2007, and the related Funding Year 2006 applications for funding and service provider selections and have issued our report thereon dated XXXX.

Our responsibility, as prescribed by the attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, is to plan and perform our examination to obtain sufficient evidence to provide a reasonable basis for the conclusion that is expressed in our report. Our examination includes consideration of internal control in order to determine our examination procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the Beneficiary's internal control or to identify deficiencies in internal control. Accordingly, we express no such opinion on internal control effectiveness.

Because our consideration of internal control was for the limited purpose described above, our examination would not necessarily identify all control deficiencies, significant deficiencies or material weaknesses.

Definitions Related to Internal Control Deficiencies

A deficiency in internal control over compliance (control deficiency) exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement on a timely basis. Control deficiencies may individually, or in combination, give rise to a significant deficiency or a material weakness.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects a beneficiary's ability to comply with the applicable requirements of the FCC's Title 47 C.F.R. § 54.500 through 54.523, as amended, and related FCC Orders such that there is more than a remote likelihood that a noncompliance with the aforementioned requirements that is more than inconsequential will not be prevented or detected by the beneficiary's internal controls. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that material noncompliance with the aforementioned requirements will not be prevented or detected by the beneficiary's internal controls.

Control Deficiencies and Immaterial Noncompliance Comments

Material weakness

We believe the following identified control deficiencies constitutes a material weakness in internal control:

Comment No: SL2007BE055_C01

Condition:	The Beneficiary did not consider price as the primary factor in evaluating and selecting bids.
Criteria:	Per 47 C.F.R. § 54.511 (a), The Beneficiary shall consider all bids submitted and select the most cost-effective service offering, with price being the primary factor considered.
Cause:	The Beneficiary's bid evaluation worksheet noting four separate categories for bids (Internal Connections, Maintenance, etc.), and each category had its own weighted scoring system. Weights were allocated between four or five criteria, totaling 100 possible points. Grant Thornton noted cost was the lowest, or tied for the lowest rated criteria in three categories, and was the second to lowest in the fourth. Grant Thornton also noted that not all service providers selected were evaluated using the bid evaluation worksheet.
Effect:	The Beneficiary did not consider price as the primary factor in evaluating and selecting bids. In multiple cases, the service provider selected was not the lowest-cost bidder. If price were the only factor to be considered and the lowest-cost service provider been selected in each case, the maximum potential savings to the Universal Service Fund would have been as follows:

Funding Request Number	Potential Savings
1424478	\$2,049
1424502	\$1,890
1424518	\$5,940

Total:	\$9,878
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Recommendation: The Beneficiary should review the requirements for bid evaluation and service provider selection, and make price their primary factor in evaluating and selecting bids.

Beneficiary Response:

Comment No: SL2007BE055_C02

Condition: The Beneficiary allowed a service provider to actively participate in its competitive bidding process.

Criteria: Per FCC Order 00-167, paragraph 10, The Beneficiary shall not surrender control of its competitive bidding process to a service provider that participates in that bidding process and will not include service provider contact information on its FCC Form 470s.

Cause: The Beneficiary allowed a service provider to materially participate in the preparation of a Request for Proposal, preparation of the bid evaluation worksheet, bid evaluation, and bid selection.

Effect: The service provider participating in the competitive bidding process (EduTex Consulting) created an unfair advantage for the service provider, which compromises the fairness of the bidding process. EduTex Consulting was the prevailing bidder over Desert Communications for Funding Request Numbers (FRN) #1424502 and #1424518 and in both cases EduTex was the highest bidder. The disbursement amounts for FRN #1424502 and #1424518 were \$8,640 and \$8,478, respectively.

Recommendation: The Beneficiary should not allow service providers to participate in the competitive bidding process.

Beneficiary Response:

Other Matters

We identified the following control deficiencies that are of a lesser magnitude than a material control weakness or significant deficiency. During our examination we also noted certain matters involving immaterial noncompliance with the aforementioned requirements. Our comments related to improvement opportunities in the areas of internal control and compliance with the aforementioned requirements are summarized below:

Comment No: SL2007BE055_C03

Condition:	The Beneficiary was unable to produce a requested file during the examination.
Criteria:	Per 47 C.F.R. § 54.504 (c)(1)(x), The Beneficiary recognizes that it may be audited pursuant to its application, that it will retain for five years any and all worksheets and other records relied upon to fill out its application, and that, if audited, it will make records available to the Universal Service Administrative Company (USAC).
Cause:	The Beneficiary failed to adhere to their own document retention policy and the 47 C.F.R. § 54.504 (c)(1)(x) requirement.
Effect:	The Beneficiary was unable to produce "Appendix A" of the EduTex maintenance contract. There is no monetary effect related to this matter.
Recommendation:	Grant Thornton recommends that the Beneficiary refer to the list of USAC suggested documents to be retained which can be found in Paragraphs 45-50 in the FCC's 5th Report and Order (FCC 04-190). Grant Thornton also recommends that the Beneficiary establish a process to ensure in all cases that the appropriate documentation is being retained.
Beneficiary Response:	

Comment No: SL2007BE055_C04

Condition:	The Beneficiary's document retention policy does not adequately satisfy the five year record retention requirement for some types of documents.
Criteria:	47 C.F.R. § 54.516 (a)(1) and 54.504 (c)(1)(x) require a five year retention period for all documents related to the application for, receipt, and delivery of discounted telecommunications and other supported services. Also, any other document that demonstrated compliance with the statutory or regulatory requirements for the schools and libraries mechanism must be retained.
Cause:	Inadequate document retention policy.

Effect: The Beneficiary's document retention policy may result in contracts being disposed of after only four years. There is no monetary effect related to this matter.

Recommendation: The Beneficiary should refer to the list of USAC suggested documents to be retained which can be found in Paragraphs 45-50 in the FCC's 5th Report and Order (FCC 04-190) and update their document retention policy to ensure compliance with the Federal Code of Regulations five-year retention period. Specifically, Grant Thornton recommends that the Beneficiary amend their Local Government Records Control Schedule to require all contracts which received funding from USAC be retained for at least five years after the last day service was provided or the equipment was delivered.

Beneficiary Response:

Comment No: SL2007BE055_C05

Condition: The Beneficiary's fixed asset register of equipment purchased as components of supported internal connections services is incomplete. Grant Thornton noted two power back-up units used for internal connections were not recorded on the Beneficiary's fixed asset register.

Criteria: Per 47 C.F.R. § 54.516 (a) and § 54.516 (a)(1), The Beneficiary is required to maintain asset and inventory records of equipment purchased as components of supported internal connections services sufficient to verify the actual location of such equipment records for a period of five years after purchase.

Cause: The Beneficiary's fixed asset register of equipment purchased as components of supported internal connections services is incomplete and insufficient to verify the actual location of such equipment.

Effect: Inability to accurately monitor and track equipment including the transfer, disposal or sale of equipment. There is no monetary effect related to this matter.

Recommendation: Grant Thornton recommends that the Beneficiary perform a fixed asset inventory and update their fixed asset listing. The Beneficiary should develop formal fixed asset policies and procedures, which should include the development of a schematic of the equipment and a replacement and transfer log.

Beneficiary Response:

Comment No: SL2007BE055_C06

Condition:	The Beneficiary did not pay its full post-discount amount to the service provider. Additionally, the Beneficiary did not accurately calculate the appropriate pre and post discount costs.
Criteria:	Per 47 C.F.R. § 54.523, which was clarified in FCC Order 04-190, paragraph 24; as well 47 C.F.R. § 54.504 (b)(2)(v), The Beneficiary will pay all "non-discount" portions of requested goods and/or services.
Cause:	The Beneficiary did not accurately calculate the appropriate pre and post-discount costs.
Effect:	The Beneficiary underpaid the service provider by a nominal amount..
Recommendation:	Grant Thornton recommends that the Beneficiary maintain reconciliation by FRN of the service provider invoices to the invoices submitted to USAC, which would enable them to monitor the compliance with the above criteria.
Beneficiary Response:	

Comment No: SL2007BE055_C07

Condition:	The Beneficiary requested and received reimbursement for the purchase of equipment not listed in the FCC Form 471 Item 21; and the Beneficiary failed to properly apply to USAC for this addition.
Criteria:	<p>Per 47 C.F.R. § 54.505 (a) The Beneficiary shall apply its discount percentage to the appropriate pre-discount price.</p> <p>Per 47 C.F.R. § 54.504 (f), The Beneficiary shall request, and funds will be disbursed by the Universal Service Fund, amounts related to service substitutions that provide the same functionality and will be based on the lower of the pre-discount price of the service for which support was originally requested or the pre-discount price of the new, substituted service.</p>
Cause:	<p>Administrative oversight.</p> <p>The Beneficiary was reimbursed for the purchase of equipment not listed on Item 21 of the FCC Form 471; and no request was submitted for this addition.</p>
Effect:	The Beneficiary received \$173 in excessive funding disbursements from USAC for the purchase of "Exchange SVR 2003 ENG ACAD-6.0"; which was not on Item 21 of the FCC Form 471.

Recommendation: The Beneficiary should only request reimbursement for items and services on the FCC Form 471, or should submit a request for all service substitutions and additions.

Beneficiary Response:

Comment No: SL2007BE055_C08

Condition: There is a lack of segregation of duties in the Account Payable process. The Accounts Payable clerk is responsible for receiving invoices from vendors, generating checks and mailing checks. Checks are printed with an electronic signature and do not require a second signature.

Criteria: Appropriate policies and procedures and segregation of duties.

Cause: The lack of segregation of duties.

Effect: There is no monetary effect related to this matter.

Recommendation: The Beneficiary should develop and implement the appropriate policies and procedures to ensure proper segregation of duties.

Beneficiary Response:

The Beneficiary's written response to the control deficiencies identified herein has not been subjected to our examination procedures and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of Meadow Independent School District's management, Universal Service Administrative Company and the Federal Communications Commission, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,